

Message Text

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P 260638Z JAN 77
FM AMEMBASSY MANILA
TO SECSTATE WASHDC PRIORITY 5283
INFO AMEMBASSY KATHMANDU PRIORITY

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USADB

FOR NAC AGENCIES

E. O. 11652: ADS, DECLAS 4/26/77
TAGS: EAID, EFIN
SUBJECT: PROPOSED ADB LOAN FOR THIRD AGRICULTURAL CREDIT
PROJECT TO NEPAL

SUMMARY: ADB MANAGEMENT PROPOSES \$6.0 MILLION EQUIVALENT
LOAN FROM SPECIAL FUNDS TO GOVT OF NEPAL FOR RELENDING TO
AGRICULTURAL DEVELOPMENT BANK OF NEPAL (ADBN) TO FINANCE
FOREX COST OF SUBLOANS TO FARMERS AND FARM COOPERATIVES FOR
DEVELOPMENT OF FARM LEVEL IRRIGATION IN 13 DISTRICTS OF THE
TERAI REGION. OF THE PROCEEDS, \$4.5 MILLION WILL COVER COST
OF INVESTMENT IN IRRIGATION FACILITIES AND SUPPORTING EQUIP-
MENT, \$1.5 MILLION WILL FINANCE IMPORTATION OF FERTILIZER.
LOAN WOULD BE THIRD TO ADBN FROM BANK. USADB RECOMMENDS
FAVORABLE NAC ACTION. END SUMMARY.

1. ADB DOC R5-77 WITH ATTACHMENTS DESCRIBING PROPOSED LOAN
POUCHED ADDRESSEES JAN 18. BOARD CONSIDERATION SCHEDULED FEB 15.
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2. ADB MANAGEMENT PROPOSING \$6.0 MILLION LOAN FROM
SPECIAL FUNDS TO HIS MAJESTY'S GOVT O NEPAL (HMGN) FOR
RELENDING TO AGRICULTURAL DEVELOPMENT BANK OF NEPAL (ADBN).
PROCEEDS WILL AUGMENT ADBN'S FOREX RESOURCES FOR EXTENSION
OF SUBLOANS TO INDIVIDUAL FARMERS AND FARM COOPERATIVES
(SAJHAS) TO PROVIDE FARM LEVEL IRRIGATION TO ABOUT

15,000 HA. OF LAND IN 13 DISTRICTS OF THE TERAI. OF THE PROCEEDS, \$4.5 MILLION WILL FINANCE INITIAL INVESTMENT IN FACILITIES SUCH AS TUBEWELLS, DUGWELLS, PUMPSETS, OFFICE EQUIPMENT AND VEHICLES; \$1.5 MILLION WILL FINANCE IMPORTATION OF FERTILIZER DURING FIRST YEAR AFTER INSTALLATION OF IRRIGATION FACILITIES. PROPOSED TERMS ARE 40 YEAR AMORTIZATION INCLUDING 10 YEAR GRACE PERIOD, 1 PERCENT SERVICE CHARGE. HMGN TO BE BORROWER AND ADBN TO BE EXECUTING AGENCY.

3. NEPALESE ECONOMY IS OVERWHELMINGLY DEPENDENT ON AGRICULTURE, WHICH ACCOUNTS FOR 94 PERCENT OF TOTAL EMPLOYMENT, 67.5 PERCENT OF GDP AND 80 PERCENT OF EXPORT EARNINGS.

ACCORDINGLY, SLOW GROWTH OF AGRICULTURAL SECTOR LARGELY EXPLAINS ECONOMIC STAGNATION OF RECENT YEARS. DURING FOURTH PLAN PERIOD (1969/70-1974/75) FOODGRAIN PRODUCTION ROSE BY ABOUT 1.9 PERCENT ANNUALLY, CASH CROP PRODUCTION BY 2.8 PERCENT. WITH FAVORABLE WEATHER CONDITIONS AND INCREASED USE OF AGRICULTURAL INPUTS, FOODGRAIN PRODUCTION IN 1975/76 WAS UP A MORE CREDIBLE 3.6 PERCENT. PROSPECTS FOR 1976/77 ARE BELIEVED FAIRLY GOOD, BUT LONG-TERM OUTLOOK APPEARS DIFFICULT.

4. BASIC PROBLEM IN AGRICULTURE IS LOW CROP YIELDS, AGGRAVATED BY POPULATION PRESSURE AGAINST LIMITED RESOURCES OF UNCULTIVATED LAND. WITH POPULATION GROWING AT RATE OF 2.2 PERCENT P.A., LAND HOLDINGS ARE INCREASINGLY FRAGMENTED. IN THE HILLS, WHICH ACCOUNTS FOR 0.5 MILLION HA. OUT OF 2.0 MILLION HA. OF CULTIVATED LAND AREA, POP- LIMITED OFFICIAL USE

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ULATION DENSITY IS 930 PERSONS PER SQUARE KILOMETER AND AVERAGE AREA CULTIVATED BY A FARM FAMILY IS ONLY 0.2-0.6 HA. IN THE TERAI, MAIN CULTIVATED AREA, A FARM FAMILY CULTIVATES FROM 0.8 TO 6.8 HA., DEPENDING ON REGION, BUT POPULATION GROWTH IS MUCH MORE RAPID. GOVT'S FIFTH PLAN (1975/76 - 1979/80) DEVOTES A SIGNIFICANTLY HIGHER PROPORTION OF INVESTMENT TO AGRICULTURE, STRESSING QUICK YIELDING AND DIRECTLY PRODUCTIVE ACTIVITIES IN ORDER TO BENEFIT FROM PAST INVESTMENTS IN INFRASTRUCTURE. THERE IS HEAVY EMPHASIS ON IRRIGATION, PRIMARILY IN TERAI WHERE ALONE THERE REMAINS POTENTIAL FOR RAISING PRODUCTIVITY THROUGH IRRIGATION, AND ON AGRICULTURAL INPUTS SUCH AS FERTILIZER AND IMPROVED SEEDS.

5. IRRIGABLE AREA IN NEPAL ESTIMATED AT 1.3 MILLION HA., OR 65 PERCENT OF TOTAL CULTIVATED AREA, OF WHICH ONLY 260,000 HA. (13 PERCENT OF CULTIVATED AREA) IS PROVIDED WITH IRRIGATION. PAST PROJECTS HAVE CENTERED ON SURFACE

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INFO AMEMBASSY KATHMANDU PRIORITY

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USADB

WATER IRRIGATION, CARRIED OUT IN COOPERATION WITH INDIA, WITH DISAPPOINTING RESULTS FOR REASONS BOTH TECHNICAL AND MANAGEMENT-RELATED. MORE RECENTLY BANK AND IDA HAVE FINANCED FOUR PROJECTS (TWO EACH) BASED ON GROUNDWATER IRRIGATION WHICH SEEK TO AVOID PREVIOUS LACK OF COORDINATION BETWEEN AGRICULTURAL AND IRRIGATION DEVELOPMENT AGENCIES. GROUNDWATER DEVELOPMENT NOW SEEN AS LEADING TO FASTER RETURNS THAN SURFACE IRRIGATION SCHEMES WHICH REQUIRE STORAGE RESERVOIRS OR EXPENSIVE RIVER DIVERSIONS.

6. AGRICULTURAL CREDIT ALSO RECEIVES HEAVY EMPHASIS IN FIFTH PLAN. CREDIT DISBURSEMENTS BY ADBN ARE TO RISE FROM NR 180 MILLION (US\$14.4 MILLION) IN 1975/76 TO OVER NR 385 MILLION IN 1979/80. EMPHASIS IS TO BE ON ASSISTANCE TO SMALL FARMER THROUGH THE SAJHA PROGRAM, ANNOUNCED BY GOVT IN MAY 1976, AND THROUGH SMALL FARMERS GROUPS.

7. BANK HAS ASSISTED IN DEVELOPMENT OF ADBN SINCE ITS ESTABLISHMENT IN 1968. TA GRANTS WERE PROVIDED IN 1968, 1969, AND AS ACCOMPLISHMENTS TO BANK'S FIRST AND SECOND LIMITED OFFICIAL USE

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AGRICULTURAL CREDIT PROJECTS IN 1970 AND 1975. FIRST LOAN PROJECT PROVIDED \$2.4 MILLION TO FINANCE TRACTORS AND IMPLEMENTS; PUMPSETS AND RELATED ACCESSORIES; AND OFFICE EQUIPMENT AND SERVICE VEHICLES FOR PORTIONS OF CENTRAL TERAI. PROJECT WAS DELAYED FOR TWO YEARS, PRIMARILY BY DELAYS IN CONSULTANTS' RECRUITMENT AND REQUIRED RETENDERING FOR PUMPSETS, BUT SUBSEQUENT IMPLEMENTATION HAS BEEN SATISFACTORY AND INITIAL RESULTS SHOW MARKED INCREASES IN PRODUCTIVITY AND IN FARMERS' INCOMES WITHIN AFFECTED AREAS. SECOND LOAN PROJECT PROVIDED \$3.0 MILLION TO FINANCE WAREHOUSES; COLD STORAGE FACILITIES; TRACTORS; POWER TILLERS; AND MECHANICAL DRYERS FOR PROCESSING CARDAMOM AND GINGER. CABINET-TYPE DRYERS WERE SUBSEQUENTLY SUBSTITUTED FOR ORIGINALLY INTENDED EQUIPMENT, BUT IMPLEMENTATION HAS OTHERWISE BEEN ACCORDING TO PLAN. CONVENANTS HAVE BEEN ADHERED TO UNDER BOTH LOANS WITH MINOR EXCEPTIONS IN THREE AREAS, IN ALL OF WHICH OVERSIGHTS HAVE SUBSEQUENTLY BEEN CORRECTED TO SATISFACTION OF BANK.

8. WITH IS ABSORPTION OF LAND REFORM SAVINGS CORPORATION IN 1973, ADBN EMERGED AS PRINCIPAL AGRICULTURAL FINANCING INSTITUTION IN NEPAL. OF PAID-IN CAPITAL OF NR 97 MILLION, 67 PERCENT IS CONTRIBUTED BY GOVT, 31 PERCENT BY NEPAL RASTRA BANK(NRBL, 2 PERCENT BY INDIVIDUALS AND COOPERATIVES. SEVEN-MAN BOARD CONSISTS OF THREE REPS FROM GOVT, ONE EACH FROM NRB, INDIVIDUAL AND CORPORATE SHAREHOLDERS, AND EXECUTIVE MANAGEMENT OF ADBN. CHAIRMAN IS SECRETARY, MINISTRY OF FOOD, AGRICULTURE, AND IRRIGATION. ADBN OPERATES THROUGH FOUR REGIONAL OFFICES, 113 BRANCHES THROUGHOUT NEPAL AND, AS FROM MAY 1976, DISTRICT OFFICES WHICH INTERPOSE BETWEEN REGIONAL AND BRANCH OFFICES. STAFF DOUBLED IN SIZE, TO 1226, FROM SEPTEMBER 1973 TO JULY 1976, YET EFFICIENCY HAS IMPROVED NOTABLY AS INDICATED BY DECLINE IN RATION OF ADMINISTRATIVE EXPENSES TO AVERAGE LOAN PORTFOLIO (FROM 6.7 PERCENT IN 1973/74 TO 4.4 PERCENT IN 1974/75).

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9. BANK IS SATISFIED WITH ADBN'S ORGANIZATION STRUCTURE SUBJECT TO TWO CHANGES WHICH ADBN HAS AGREED EFFECT PRIOR JULY 16, 1977: SHIFT OF TRAINING AND INFORMATION SECTION FROM ADMINISTRATIVE DIVISION TO PLANNING, RESEARCH, AND PROJECT DIVISION; AND UPGRADING OF FOREIGN LOAN SECTION OF LOAN DIVISION INTO A DIVISION IN ITS OWN RIGHT. ADBN HAS AGREED TO INSTITUTE A REORGANIZED STAFF TRAINING PROGRAM, IN CONSULTATION WITH GOVERNMENT AND BANK, FOLLOWING RELEASE OF AN ONGOING FAO SURVEY OF TRAINING NEEDS OF COUNTRY'S AGRICULTURAL CREDIT INSTITUTIONS.

10. ADBN'S LOAN PORTFOLIO DIVIDED ABOUT 60-40 AS BETWEEN COOPERATIVES, ON THE ONE HAND, INDIVIDUALS AND CORPORATIONS ON THE OTHER. ABOUT 64 PERCENT OF CREDITS HAVE BEEN SHORT-TERM (LESS THAN 18 MONTHS), 31 PERCENT MEDIUM-TERM (UP TO 7 YEARS), 5 PERCENT LONG-TERM. BY AGREEMENT, GOVT PROVIDES EQUITY SUFFICIENT TO ENABLE ADBN TO MAINTAIN DEBT/EQUITY RATIO OF 3:1; ACTUAL RATIO WAS 0.5:1 AS OF MAY 15, 1976. RATIO OF ARREARS TO LOANS OUTSTANDING AS OF SAME DATE WAS 19.5 PERCENT, WHICH IS BELIEVED ACCEPTABLE FOR A DFI WITH LARGE NUMBER OF SMALL BORROWERS IN AN AREA INFLUENCED BY UNPREDICTABLE WEATHER AND MARKET PRICES. BANK IS, HOWEVER, CONCERNED BY FACT THAT PORTION OF

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USADB

PRINCIPAL IN ARREARS FOR OVER SIX MONTHS HAS RISEN TO 65 PERCENT (AS OF MAY 17, 1976). IN CONSEQUENCE ADBN HAS AGREED PAY GREATER ATTENTION TO END-USE SUPERVISION AND TO MAKE ADEQUATE PROVISION TO RESERVES AGAINST SOUBTFUL LOANS.

11. ADBN'S PROFITS BEFORE TAX IMPROVED NOTABLY OVER PAST FOUR YEARS, RISING FROM NR 0.1 MILLION IN 1972/73 TO NR 6.6 MILLION IN 10 MONTHS OF 1975/76. IMPROVEMENT ATTRIBUTED TO HIGHER INTEREST RATES, EFFECTIVE FROM APRIL 1975, AND TO REDUCED ADMINISTRATIVE EXPENSES. WITH LOWER INTEREST RATES BEGINNING JULY 1976 AND HIGHER ADMINISTRATIVE EXPENSES ATTENDING ADBN EXPANSION, PROFITABILITY

WILL BE REDUCED THROUGH STILL SATISFACTORY LEVELS
OVER NEXT FEW YEARS.

12. PROJECT AREAS ARE IN PORTIONS OF 13 DISTRICTS IN
TERAI BELT: SEVEN DISTRICTS IN EASTERN TERAI; THREE EACH
IN CENTRAL AND WESTERN TERAI. MAIN CRITERION FOR SELECTION
OF AREAS IS TECHNICAL FEASIBILITY AS DETERMINED BY AVAILA-
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BILITY AND QUALITY OF GROUNDWATER. ALL BUT THREE OF THE EASTERN DISTRICTS HAVE BEEN SUBJECTS OF DETAILED GROUND-WATER STUDIES BY VARIOUS INTERNAL AGENCIES INDICATING SUITABILITY OF AREAS FOR INSTALLATION OF SHALLOW TUBEWELL AND DUGWELLS. WITH REGARD TO THE THREE EASTERN DISTRICTS (JHAPA, MORANG AND SANSARI) AVAILABILITY AND GOOD QUALITY OF GROUNDWATER ARE SUGGESTED BY PERFORMANCE OF EXISTING TUBEWELLS. HOWEVER, NECESSARY INVESTIGATIONS WILL BE CARRIED OUT UNDER SUPERVISION OF GROUNDWATER DIVIDISION OF DEPARTMENT OF IRRIGATION, HYDROLOGY AND METEOROLOGY (DIHM). INSTALLATION OF WELLS IN THESE AREAS WILL BE SUBJECT TO BANK'S APPROVAL AS TO RESULTS OF STUDIES. WITHIN DESIG-NATED PROJECT AREAS PRECISE LOCATIONS FOR WELLS AND PUMP-SETS WILL BE SELECTED ON BASIS OF TECHNICAL FEASIBILITY; POTENTIAL FOR AGRICULTURAL DEVELOPMENT, INCLUDING ACCESS AND MARKETING FACILITIES; CAPACITY AND EFFICIENCY OF SAJHAS; AND LOCAL DEMAND FOR WELLS AS DETERMINED BY ADBN STAFF INQUIRIES. EXCLUDED FROM PROJECT ARE AREAS SUITABLE FOR ARTESIAN WELLS, AND AREAS FALLING WITHIN PURVIEW OR POTENTIAL INFLUENCE OF OTHER IRRIGATION PROJECTS.

13. FOODGRAINS (PRIMARILY RICE, BUT ALSO WHEAT, MAIZE, BARLEY AND MILLET) ACCOUNT FOR 94 PERCENT OF CROPS GROWN IN DISTRICTS CONSTITUTING PROJECT AREA; CASE CROPS (OIL-SEED, SUGAR CANE, POTATO AND TOBACCO) THE REMAINDER. DISTRICTS HAVE FAIRLY GOOD ROAD NETWORK AND MARKETING OUTLET. USE OF FERTILIZER, IMPROVED SEEDS AND INSECTICIDES IS LOW BUT GAINING, ESPECIALLY IN IRRIGATED AREAS. ABOUT 87 PERCENT OF AREA FAMILIES OPERATE LANDHOLDINGS OR LESS THAN FOUR BIGHAS (2.68 HAS.). ACCORDINGLY, SIZEABLE PRO-PORTION WILL HAVE TO JOIN WITH OTHER FARMS TO OWN AND OPERATE IRRIGATION FACILITIES UNDER PROPOSED PROJECT.

14. PROJECT SUBLOANS WILL FINANCE FOLLOWING: 2,800
SHALLOW TUBEWELLS AND 400 DUGWELLS WITH RELATED PUMPSETS,
AND 800 4 INCH PUMPSETS FOR WATER LIFTING FROM SURFACE
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SOURCES; FERTILIZERS, INSECTICIDES, AND SEEDS; OFFICE EQUIPMENT AND VEHICLES; IMPROVEMENT OF TRAINING FACILITIES AT ADBN (SEE PARA. 9. FERTILIZERS, FOR WHICH \$1.5 MILLION FOREX ALLOCATED, WILL BE SUPPLIED ONLY IN FIRST YEAR AFTER PROVISION OF IRRIGATION FACILITIES, IN SUBSEQUENT YEARS, WILL BE FINANCED FROM ADBN'S OWN RESOURCES SUPPLEMENTED BY REVOLVING FUND TO BE ESTABLISHED FOR THIS PURPOSE. TO ENCOURAGE FERTILIZER USE AFTER FIRST YEAR, GOVT AGREES TAKE MEASURES TO PROVIDE IMPROVED EXTENSION SERVICES.

15. TOTAL PROJECT COST ESTIMATED AT \$7.9 MILLION, OF WHICH FOREX PORTION IS \$6.0 MILLION. LOCAL CURRENCY REQUIRMENT OF \$1.9 MILLION, MAINLY FOR CIVIL WORKS, IMPORTS SUCH AS INSECTICIDES AND SEEDS, AND TRAINING FACILITIES, WILL BE MET BY ADBN. DISBURSEMENTS WILL BE OVER THREE YEARS, DIVIDED ROUGHLY 20 PERCENT, 35 PERCENT, AND 45 PERCENT, RESPECTIVELY. GOVT'S RELENDING RATE TO ADBN WILL BE 4 PERCENT AND 8 PERCENT BELOW RATE AT WHICH ADBN WILL MAKE SUBLOANS TO COOPERATIVES AND INDIVIDUAL FARMERS OR GROUPS OF FARMERS, WHICH ARE CURRENTLY 10 AND 14 PERCENT, RESPECTIVELY. ON THAT PORTION OF BANK'S LOAN WHICH WILL NOT BE USED FOR SUBLOANS, NAMELY THE PROCEEDS RELATIVE TO GROUNDWATER

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INVESTIGATIONS AND VEHICLES AND OFFICE EQUIPMENT, RE-

LENDING RATE WILL BE 6 PERCENT. REPAYMENT WILL BE OVER 25 YEARS WITH FIVE YEAR GRACE PERIOD. GOVT WILL MAKE NECESSARY ARRANGEMENTS TO ENSURE THAT FOREX RISK IS NOT BORNE BY ADBN.

16. SUBLOANS WILL BE MADE DIRECT TO INDIVIDUAL FARMERS PROVIDED THEY HAVE COMPACT FARM AREA OF AT LEAST FOUR BIGHAS; OTHERWISE TO SMALL FARMERS GROUPED INTO SUFFICIENTLY LARGE SMALL FARMERS GROUPS. LATTER TO BE CHANNELED THROUGH SAJHAS. ADBN TO MAKE BEST EFFORTS TO ENSURE THAT AS MANY AS POSSIBLE OF BENEFICIARIES ARE SMALL FARMERS, INCLUDING TENANTS. REPAYMENT PERIOD ON SUBLOANS WILL EQUAL ESTIMATED ECONOMIC LIFE, OR CROP CYCLE, OF ITEM FINANCED: SIX YEARS FOR IRRIGATION FACILITIES; 9 TO 18 MONTHS FOR FERTILIZERS.

17. ADBN, THE EXECUTING AGENCY WILL OPERATE IN COORDINATION WITH VARIOUS GOVT AGENCIES, NOTABLY: DIHM, FOR TECHNICAL ASSISTANCE IN TUBEWELL DEVELOPMENT; DEPT OF LIMITED OFFICIAL USE

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AGRICULTURE (DA), FOR EXTENTIONS SERVICES; AGRICUTURAL IMPORTS CORP (AIC), FOR FERTILIZER PROCURMENT. COORDINATION AT NATIONAL LEVEL WILL BE RESPONSIBILITY OF CENTRAL COORDINATING COMMITTEE FOR AGRICULTURE, CHAIRED BY SECRETARY OF MINISTRY OF AGRICULTUREV AT DISTRICT LEVEL, BY DISTRICT COORDINATION COMMITTEE FOR AGRICULTURE, OF WHICH LOCAL HEADS OF ADBN, DA, DIHM, AND AIC ARE MEMBERS. PROJECT CONAINS EXTENSIVE PROVISIONS FOR STRENGTHENING OF EXTENTION AND RELATED SERVICES, AND FOR SUPERVISION AND AUDIT OF SAJHAS.

18. PROCUREMENT, WHICH WILL BE IN ACCORDANCE WITH BANK'S GUIDELINES, WILL BE UNDERTAKEN BY FOREIGN LOAN DIVISION OF ADBN, EXCEPT FOR FERTILIZERS WHICH WILL BE PROCURED BY AIC. WHERE FEASIBLGE, IDENTICAL OR SIMILAR ITEMS WILL BE GROUPED TOGETHER SO THAT EACH BID PACKAGE WILL BE SUITABLE FOR INTERNATIONAL BIDDING. CONTRACTS OF OVER \$100,000 TO BE AWARDED ON BASIS OF INTERNATIONAL COMPETITIVE BIDDING; LESS THAN \$100,000 ON BASIS QUOTATIONS FOR REASNABLE NUMBER OF SUPPLIERS FROM MORE THAN ONE COUNTRY.

19. PROPOSED PROJECT, WOULD PROVIDE SUBSTANTIAL BENEFITS TO THE 8,000 FARM FAMILIES DIRECTLY BENEFITTED, ABOUT TWO-THIRDS OF WHOM CULTIVATE LESS THAN 4 BIGHAS (2.68 HAS), AND AT FULL DEVELOPMENT WOULD PROVIDE 3,000 MAN YEARS OF ADDITIONAL EMPLOYMENT. INCREMENTAL PRODUCTION RESULTING FROM SHARPLY INCREASED CROP YIELDS ESTIMATED AT 76,000 TONS OF PADDY, 50,000 TONS OF WHEAT IN FIRST

FIVE YEARS. RESULTING FOREX EARNINGS,
AFTER PROVISION FOR SHIPMENTS TO FOOD-DEFICIT AREAS OF
NEPAL, ESTIMATED AT \$11.7 MILLION. PROJECT APPEARS
ECONOMICALLY VIABLE AND FINANCIALLY SOUND, WITH ECONOMIC
RATE OF RETURN ESTIMATED AT 38 PERCENT. USADB SUPPORTS
PROPOSAL AND RECOMMENDS FAVORABLE NAC ACTION.

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20. REQUEST KATHMANDU COMMENTS FOR NAC AGENCIES,
INFO USADB MANILA, PURSUANT TO STATE 119795 DATED
3 JULY 1972.
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Message Attributes

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Disposition Approved on Date:
Disposition Case Number: n/a
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Disposition Date: 22 May 2009
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TAGS: EAID, EFIN, RP, NP, ADB
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